Manitoba Tire Stewardship Board

April 1, 2003 – March 31, 2004

Annual Report

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Introduction

Manitobans discard approximately one million scrap tires a year. In previous years, these ended up in municipal waste disposal grounds where they were eventually buried or sometimes burned. In 1992, the Manitoba Government instituted a $3 levy on all tires sold in Manitoba for use on licensed vehicles or trailers. In April 1995, the Tire Stewardship Board was established as an arm's length from government statutory corporation to work with stakeholders to develop solutions to scrap tire management problems in Manitoba. The program is funded by tire consumers through the retail industry. Revenues are held in a dedicated fund, managed by the Tire Stewardship Board. Solutions are delivered by the industry with funding paid on proof-of-sale of approved recycled products.

On March 31, 2000, the government of Manitoba removed and retained the P.S.T. portion of the tire levy and the Board now receives $2.80 on all tires sold in Manitoba for use on licensed vehicles or trailers

Scrap tires in waste disposal grounds take up large amounts of space and pose a significant health and fire hazard. Finding alternative uses for scrap tires solves these problems and contributes to a reduction of the waste stream. New uses of scrap tires also contribute significantly to the economy of Manitoba.

The Waste Reduction and Prevention Act and the Tire Stewardship Regulation 33/95 provide the authority to make scrap tires a designated material and allows the Board to collect a tire levy on the sale of new tires and establish a fund and management program managed by the Board.

The Board does not regulate the ownership, control, or use of scrap tires outside the Program nor does it guarantee a supply of tires to recyclers or encroach on the waste management responsibilities of municipal authorities.

Introduction

Chaque année, les Manitobains jettent environ un million de pneus de rebut. Au cours des années précédentes, ces pneus finissaient dans des décharges municipales, où ils étaient par la suite enfouis ou parfois brûlés. En 1992, le gouvernement du Manitoba a imposé une taxe de 3 $ sur tous les pneus neufs vendus au Manitoba pour les véhicules ou remorques immatriculés. En avril 1995, la Commission de gestion des pneus a été établie comme société indépendante du gouvernement. Elle a pour but de travailler avec les parties intéressées afin de trouver des solutions au problème de la gestion des pneus de rebut au Manitoba. Le programme est financé par les consommateurs par l'entremise des détaillants de pneus. Les revenus sont placés dans un fonds spécial géré par la Commission de gestion des pneus. Les solutions sont fournies par l'industrie qui bénéficie d'un financement après coup, en fonction du nombre de produits recyclés approuvés qui ont été vendus.

Le 31 mars 2001, le gouvernement du Manitoba a enlevé et retenu le montant de la taxe de vente provinciale du montant du droit à payer sur les pneus et le *Board* reçoit désormais 2,80 $ pour chaque pneu vendu au Manitoba, pour les véhicules et remorques qui sont immatriculés.

Les pneus de rebut dans les décharges prennent beaucoup de place et présentent un danger considérable pour la santé ainsi qu'un risque important d'incendie. La recherche d'autres utilisations pour les pneus de rebut permet de résoudre ces problèmes et de contribuer à la réduction du flux des déchets. L'économie du Manitoba bénéficie beaucoup des nouvelles utilisations des pneus de rebut.

En vertu de la *Loi sur la réduction du volume et de la production des déchets* et conformément au *Règlement sur la gestion des pneus* (RM 33/95), le Manitoba est autorisé à conférer le titre de « matériau désigné » aux pneus de rebut et la Commission de gestion des pneus a le droit de prélever une taxe sur la vente des pneus neufs et d'établir et de gérer un fonds et un programme de gestion.

La Commission ne réglemente pas la possession, le contrôle ou l'utilisation des pneus de rebut en dehors du programme, ni ne garantit un approvisionnement de pneus aux recycleurs, ni n'empiète sur les responsabilités des administrations municipales en matière de gestion de déchets.

Goals

The basic goals of the Board for 2003/2004 were through a financial incentive to the industry to:

1. Divert the flow of scrap tires to registered processors to recycle this waste into products for resale. This goal continues to be achieved and in this year, the number of passenger tire equivalents (PTE's) of scrap tires recycled was 1,475,542 PTE's or 14,755 tons that did not enter landfills.

2. Continue to keep up communications with stakeholders and the public on this program through a broadened communications program. This is an ongoing effort.

3. Maintain support for recycling industries, which both maximize environmental benefit and assist the economy of Manitoba.

Objectifs

En 2003 2004, les principaux objectifs de la Commission étaient d'offrir des mesures incitatives à l'industrie pour que:

1. le flux de pneus de rebut soit dirigé vers des entreprises de recyclage enregistrées afin qu'ils soient recyclés en produits de revente. On continue à atteindre cet objectif et, cette année, le nombre de pneus de rebut recyclés correspondait à 1,475,542 pneus equivalents ou 14,755 tons;

2. l'industrie continue à s'entretenir avec les parties intéressées et le public grâce à un programme de communication élargi (initiative qui est toujours en cours);

3. l'industrie continue à appuyer les entreprises de recyclage qui utilisent des processus qui sont non seulement bénéfiques pour l'environnement, mais aussi pour l'économie du Manitoba.

Progress in 2003/04

The Tire Stewardship Board works co-operatively with tire wholesalers and retailers, auto dealers, municipalities and local governments, regional waste management authorities, processors, collectors, recycling organizations, and the public.

The Board has worked with retailers, distributors and the Board's contracted levy collector to ensure that all levies are being properly collected. This is an on-going task that also identifies which retailers should be audited for non-compliance.

The following areas were addressed by the Board during the past year:

Accountability

- Continued to investigate non-levy remittance from monthly lists and had 30 audits/investigations of retailers carried out as part of the Board's financial contract. These audits returned $23,877.01 to the Board.
- Held six Board of Directors' meetings, and attended the annual meeting of the Canadian Association of Tire Recycling Agencies (CATRA).
- Instituted a one-time payment of $2.75 per PTE for the removal of all OTR's from Tire Recycling Corporation (TRC's) and Reliable Tire Recycling (RTR's) yards. This clean up was completed.
- Had an independent audit done on the Corporation.
- Developed corporate Privacy Policy.
- Had audits carried out on RTR, TRC and Phoenix Industries.
- Contracted Phoenix Industries as a Collector for southwestern Manitoba.
- Contracted OTR Recycling to operate a short-term off-road collection program designed to determine the economics of recycling off-road tires.
- Produced a Three-Year Business Plan, which received Ministerial approval in principle.

- Contracted a province-wide Omnibus survey to determine public responses to additional tire levies.
- Initiated Rocky Kile as a new director replacing Jim McKenzie as the representative of the Western Canada Tire Dealers.
- Supplied Director Rocky Kile with a summarized annual report for his presentation at the annual Western Canada Tire Dealers convention.

Promotion

- Produced a newsletter brochure of the Board's program during this year for distribution to approximately 3,000 retailers, stakeholders and other interested parties.
- Prepared a short annual report for presentation at the Western Canada Tire Dealers annual meeting.
- The General Manager participated in a television show by Shaw Cable of Winnipeg that dealt with the use of crumb rubber in a demonstration playground.
- Supplied an interpretive sign for a groundwater pollution solution at the Gunton Bull Test Station.
- Supplied a Wabowden school with 40,000 pounds of playground rubber crumb as a northern demonstration site promoting the Manitoba product.
- The General Manager attended the California Integrated Waste Management Board's 5th Waste Tire Management Conference as a speaker.
- Ran an advertisement in the *Winnipeg Sun* for "Recycling and the Environment."
- Produced and distributed an information sheet on West Nile virus and scrap tire storage.
- Ran an advertisement in the *Winnipeg Free Press* in conjunction with Canadian Tire regarding West Nile virus.

- The General Manager invited tire dealers to a meeting to discuss outside tire storage and West Nile virus transmission. A tire collection program was initiated with seven Canadian Tire stores. In addition, a tire for sidewall exchange program was initiated with dairy farmers, as sidewalls do not hold water. The sidewalls are used to hold down plastic covers on large silage piles.
- Wrote articles on tire recycling which were published in a number of issues of the American *Scrap Tire News*.

Research

- Provided a $10,000 grant to OTR Recycling to develop a mobile shear for reducing large tires on site in order to transport large tires economically.
- Provided the University of Manitoba with a second $25,000 research grant to continue to investigate West Nile virus mosquito production in stockpiled scrap tires and to determine methods to eliminate the mosquitoes' habitat.

Provincial Harmonization

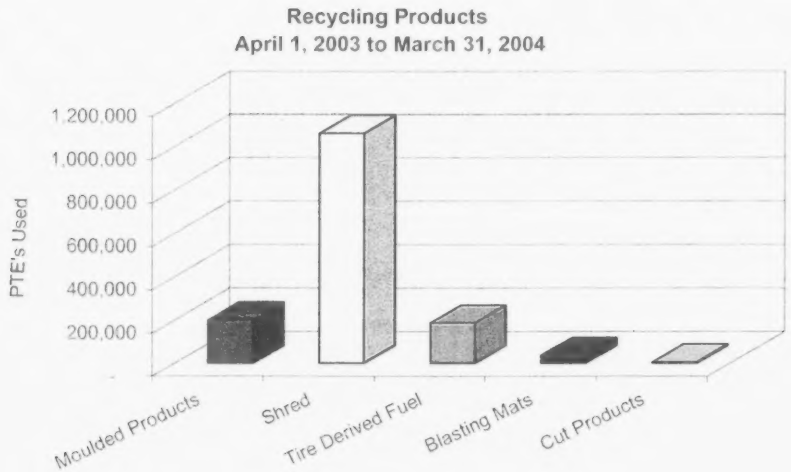
- The Chairman, Board, and General Manager attended the annual CATRA meeting in Kananaskis, Alberta, and also held a committee meeting.
- The General Manager was a speaker at Canada's 3rd National Workshop in Halifax on Extended Producer Responsibility.
- Entered into an agreement with Saskatchewan Scrap Tire Corporation to remove tires from Creighton, Saskatchewan, near Flin Flon, Manitoba.
- The General Manager chaired the western CATRA provinces and territory monthly conference calls and participated in the eastern CATRA monthly conference calls.
- Worked with the Department of Conservation in relation to the development of the Board's Three-Year Business Plan 2004–2007 and public input in the plan.

Accomplishments

A total of 1,475,542 passenger tire equivalents (PTE's) were recycled.

Products from Scrap Tires in PTE's (one PTE equals one car tire)

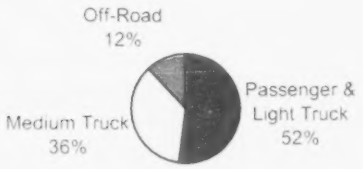
Moulded Products	196,868
Shred	1,058,664
Tire-Derived Fuel	183,504
Blasting Mats	33,495
Cut Products	3,011
	1,475,542 PTE's



This represents approximately 14,755 tons of scrap tires diverted from landfills this year and does not include the tonnage of tires diverted to other uses outside the program.

- There were a total of 794,990 car, light truck and medium truck tires sold in Manitoba this year. This is approximately the same as last year. It is estimated that 30,000 off-road, non-levied tires were sold. The composition of scrap tires being generated in Manitoba for a five-year period was:

Composition of Scrap Tires Generated Over 5 Year Period



- Net levies collected and tire recycling payments made were as follows:

Net Levies Collected	$2,190,783
(Less contract and retailer cost)	
Total Product Credits Paid to Processors	$2,694,481
Total Transportation Payments	62,306
Total Off-Road Tire Clean Up Cost	36,372
Municipal Incentive Payments	88,710
* Credit Adjustment for TRC Inventory	315,750
TOTAL	**$3,197,619**

Since the levies were insufficient for the clean up, reserve funds had to be used.

Cost per PTE to Recycle 1,475,542 PTE's $2.17

- Program management and program accounting continue to be contracted.

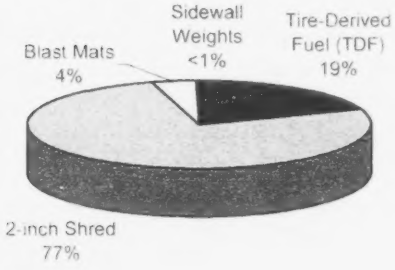
* TRC had thousands of tractor, medium truck and off-road tires stored on their yard that had been collected over the years. TRC only uses car tires in their processing. This dead inventory had cost the company to collect the tires rather than leaving them in Municipal landfills. The Board agreed to pay the collection cost and assisted monetarily in the removal of this inventory for recycling.

Industry Status

Reliable Tire Recycling was the major recycler during the year. They recycled 802,893 PTE's. The product breakdown expressed in passenger tire equivalents is as follows:

Tire-Derived Fuel (TDF)	155,240
2-inch Shred	612,803
Blast Mats	33,495
Sidewall Weights	1,355
	802,893 PTE's

Reliable Tire Recycling
Product Breakdown – 2003/2004



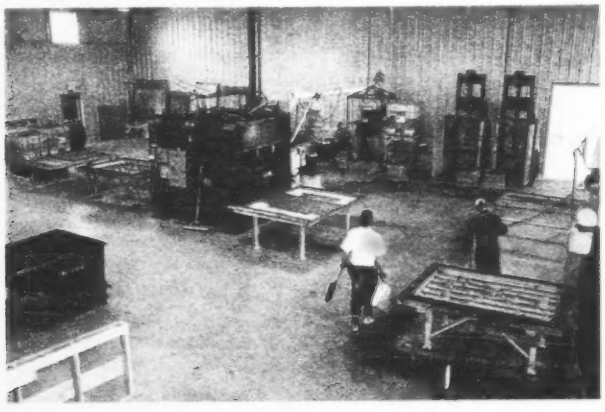
Of these products, 612,803 PTE's were shredded to two-inch and were used in two geotechnical applications to overcome poor soil conditions for road and parking applications.

Blast Mats in Reliable Tire Recycling's Yard

Reliable Tire Recycling has acquired granulating equipment to eventually make crumb rubber or playground crumb. If they continue producing tire chip, they will have to find continuous large-scale markets for their product. To date they have been relatively successful. One future outlet may be the Tolko Pulp and Paper Plant at The Pas, Manitoba. The plant is still considering rubber chip as an economic fuel replacement for bunker C oil.

Tire Recycling Corporation of North America in Winkler, Manitoba, increased mat sales over 2002/03 from 140,385 PTE's to 196,868 PTE's. Total production is about half of former production as they are still affected by the loss of markets due to the fire and new plant construction time, as well as the increased value of the Canadian dollar.

TRC will have to make a concerted marketing effort to capture new markets.

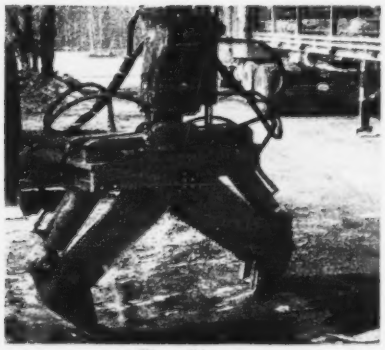


TRC's new plant in Winkler, Manitoba

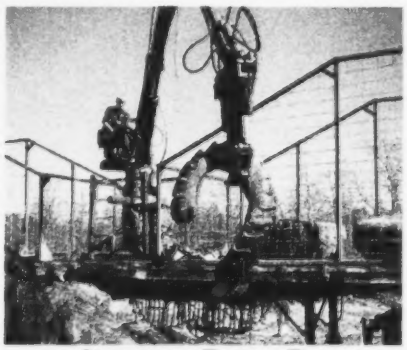
Phoenix Industries, a company registered in Manitoba, was contracted by the Board as a Collector to service an area of southwestern Manitoba. The Board directs the destination of collected tires for recycling. If either TRC or RTR needs the tires, they will be delivered to their yards. If not, they are shipped south for TDF or geotechnical projects. To date, neither processor has requested these tires. Phoenix collected 455,861 PTE's which went to geotechnical projects and 14,437 PTE's for TDF.

OTR Recycling in Faulkner, Manitoba, continues to manufacture water cisterns and feeders made from large off-road tires. These products are not part of the TSB Program. The Board, however, has entered into an agreement with OTR Recycling for a short-term pilot project, which involves developing a collection system for off-road tires. The Board is looking for an economic method and for an enumeration of off-road tires generated in Manitoba.

Water Cistern for Cattle Operations

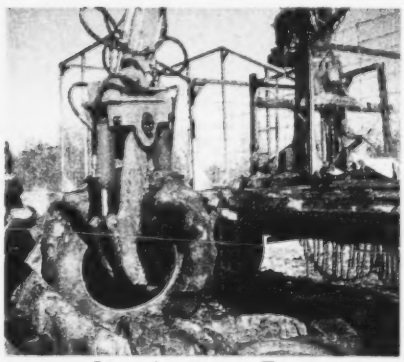


The Shear



Shearing a Tractor Tire

Standard Cherry Picker



Shearing Large Tires

Board Members

Ken Grant, Chairman
Appointed by the Minister of Conservation

Alice Poyser, Secretary-Treasurer
CAA Manitoba

Brian James, Director
The Rubber Association of Canada

Rocky Kile, Director
Western Canada Tire Dealers

Emma Gorvie, Director
Appointed by the Minister of Conservation

The Future

Over the past eight years, sale of levied tires has fluctuated between 691,000 and 799,000. There is no upward or downward trend. Because of the retailer audits over the years, the Board feels that levy capture rates are very high. Audits sometimes have gone back eight years. For these reasons, the Board budgets a conservative or average estimate of income, knowing that tire sales will fluctuate annually due to numerous variables in the country's economy over which the Board has no control. The budget for 2003/2004 incorporated these factors.

In the future as in the past, the Board's processors have and will generally recycle more PTE's than new PTE's sold and levied. This was a function of recycling unlevied off-road tires from industry and agriculture. The Board has used the surplus funds to remove and recycle all the off-road tires that were stored on processors' yards. The reserve fund is now depleted. The Board has initiated a short-term off-road collection system to see what the cost of recycling off-road tires could be with an innovated system.

The recycling of off-road unlevied tires cannot be done without an infusion of additional funding. To this end, the Board is working with the Department of Conservation and will involve public consultation on the subject of funding.

The Board has also carried out a public survey and will assess an industry survey reaction to increased funding through new levies.

The Board submitted a Three-Year Business Plan to the Minister of Conservation in which it included an impact assessment of no funding increase. The Board will request a presentation to the Minister and depending on the outcome, the program will change to either include or eliminate off-road tires from the program.

The Board has allowed for a grant to the University of Manitoba for research related to tire storage and West Nile virus vectors. This research will be completed this

year. Other programs related to the same subject will be initiated as well depending on funding availability.

The Board has been active in promoting the use of scrap tires in geotechnical works and in advertising products made from scrap tires in Manitoba and will continue to do so. Media opportunities for this type of promotion will be continued and expanded where possible.

If sufficient funding is available, the Board plans to continue to meet its goals in the future. Some ways of improving the efficiency of recycling tires in the future and of educating the public are as follows:

- The Board will continue to support research that has the potential to contribute to higher efficiencies in the program; to develop new higher-value products; to overcome logistics problems or problems related to recycling OTR's.
- The Board will continue to provide the public with information on the program and through demonstration projects.
- The Board will maintain close relationships and encourage northern recycling agencies that work in the area of recycling tires and co-ordination of collecting tires within certain geographic areas.
- The Board will continue to work with entrepreneurs who recycle non-levied OTR's outside the program.
- The Board will continue to work with members of CATRA especially in the area of information exchange, which leads to higher program efficiencies.

TIRE STEWARDSHIP BOARD

FINANCIAL STATEMENTS

MARCH 31, 2004

K. B. Eisner & Co.
CERTIFIED GENERAL ACCOUNTANTS

K. B. Eisner & Co.
CERTIFIED GENERAL ACCOUNTANTS
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AUDITORS' REPORT

To the Board of Directors of the
Tire Stewardship Board

We have audited the balance sheet of the Tire Stewardship Board as at March 31, 2004 and the statements of net operations (deficit), surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2004 and the results of its operations and the changes in financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

CERTIFIED GENERAL ACCOUNTANTS

Winnipeg, Manitoba
June 8, 2004

TIRE STEWARDSHIP BOARD

BALANCE SHEET

	March 31 2004	March 31 2003
ASSETS		
CURRENT		
Petty cash	$ 100	$ 100
Cash	63,439	106,419
Accounts receivable	290,451	262,516
Interest receivable	102	8,025
Investments (note 4)	744,154	1,934,586
Prepaid expenses	5,990	6,631
	1,104,236	2,318,277
CAPITAL		
Furniture and equipment (note 3)	4,754	2,672
	$ 1,108,990	$ 2,320,949
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 235,148	$ 102,565
Wages payable	1,284	873
	236,432	103,438
EQUITY		
SURPLUS	872,558	2,217,511
	$ 1,108,990	$ 2,320,949

APPROVED ON BEHALF OF THE BOARD

Emma Gorvie Director

Rocky Kile Director

This is the Balance Sheet referred to in the Auditors' report dated June 8, 2004.
The accompanying notes are an integral part of these financial statements.

K. B. Eisner & Co.
CERTIFIED GENERAL ACCOUNTANTS

TIRE STEWARDSHIP BOARD

STATEMENT OF NET OPERATIONS (DEFICIT)

	Year Ended March 31	
	2004	2003
REVENUE		
Tire levy	$ 2,225,972	$ 2,202,693
Interest	44,902	73,624
	2,270,874	2,276,317
DIRECT EXPENSE		
Collection services	30,000	30,000
Levy commissions	5,189	5,395
Payments to processors (note 5)	3,173,952	2,076,560
Payments to municipalities	88,710	60,282
	3,297,851	2,172,237
GROSS MARGIN (LOSS)	(1,026,977)	104,080
ADMINISTRATIVE EXPENSES		
Amortization	1,793	838
Automotive	5,516	5,420
Audit, legal and tax consulting	35,645	25,246
Board	11,319	13,607
Communications/conferences	1,170	6,203
Contracted services	88,892	92,796
Equipment leasing	1,117	1,272
Goods and services tax	5,054	5,258
Grants	40,000	20,000
Insurance	9,315	7,607
Northern clean-up	701	15,319
Office	23,469	24,811
Projects	11,855	2,012
Rent	11,019	11,247
Salaries and benefits	47,939	47,890
Telephone	3,621	3,925
Travel	19,551	35,034
	317,976	318,485
NET OPERATIONS (DEFICIT)	$(1,344,953)	$ (214,405)

This is the Statement of Net Operations (Deficit) referred to in the Auditors' Report dated June 8, 2004.
The accompanying notes are an integral part of these financial statements.

K. B. Eisner & Co.
CERTIFIED GENERAL ACCOUNTANTS

TIRE STEWARDSHIP BOARD

STATEMENT OF SURPLUS

	Year ended March 31 2004	2003
SURPLUS – Beginning of year	$ 2,217,511	$ 2,431,916
NET OPERATIONS (DEFICIT)	(1,344,953)	(214,405)
SURPLUS – End of year	$ 872,558	$ 2,217,511

This is the Statement of Surplus referred to in the Auditors' report dated June 8, 2004.
The accompanying notes are an integral part of these financial statements.

K. B. Eisner & Co.
CERTIFIED GENERAL ACCOUNTANTS

TIRE STEWARDSHIP BOARD

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended March 31	
	2004	2003
CASH PROVIDED (USED) BY:		
OPERATING ACTIVITIES		
Operations		
Net operations (deficit)	$ (1,344,953)	$ (214,405)
Item not involving cash		
Amortization	1,793	838
	(1,343,160)	(213,567)
Changes in non-cash working capital balances	1,304,055	(3,049)
	(39,105)	(216,616)
INVESTING ACTIVITIES		
Capital assets	(3,875)	----------
(DECREASE) IN CASH AND EQUIVALENTS	(42,980)	(216,616)
CASH AND EQUIVALENTS – Beginning of year	106,519	323,135
CASH AND EQUIVALENTS – End of year	$ 63,539	$ 106,519

This is the Statement of Changes in Financial Position referred to in the Auditors' report dated June 8, 2004.
The accompanying notes are an integral part of these financial statements.

K. B. Eisner & Co.
CERTIFIED GENERAL ACCOUNTANTS

TIRE STEWARDSHIP BOARD

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2004

NOTE 1 – AUTHORITY AND PURPOSE

The Tire Stewardship Board operates under the authority of the Waste Reduction and Prevention Act Chapter W40, Statutes of Manitoba, 1990, pursuant to the Tire Stewardship Regulation, Manitoba Regulation 33/95.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis over the estimated useful lives of the assets at the following annual rates.

Furniture and fixtures	20%
Computer equipment and software	30%

NOTE 3 – CAPITAL ASSETS

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Computer equipment	$ 17,309	$ 13,929	$ 3,380	$ 954
Furniture and fixtures	7,915	6,541	1,374	1,718
	$ 25,224	$ 20,470	$ 4,754	$ 2,672

NOTE 4 – INVESTMENTS

Investments consist of funds held in the trust account of the Province of Manitoba.

NOTE 5 – PAYMENTS TO PROCESSORS

Payments increased sharply in the 2003-4 year due to instituting a one time payment for removal of thousands of tractor, medium truck and off-road tires (not tax levied) which had been stockpiled over several years. Of this increase the Board agreed to pay the collection cost in the amount of $315,750 and assisted monetarily in the removal of this inventory for recycling.

K. B. Eisner & Co.
CERTIFIED GENERAL ACCOUNTANTS

TIRE STEWARDSHIP BOARD

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2004

NOTE 6 – LEASE COMMITMENTS

The Tire Stewardship Board has entered into a lease agreement which expires as scheduled. Minimum annual lease payments are as follows:

Year-end March 31	2005	$ 6,030
	2006	6,030
	2007	6,030
	2008	1,005